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May 12, 2000

METRICOM INC / DE (MCOM)

Quarterly Report (SEC form 10-Q)

OFFICIAL FILE
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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Since inception, we have devoted significant resources to the development, deployment and commercialization of our wireless network products and services. Historically, a significant portion of our revenues has been derived primarily from the development contracts and sales of customer-owned networks and related products, known as UtiliNet, to utility companies. In recent years, we have deployed a commercial wireless data network known as Ricochet in various metropolitan areas of the United States. The Company currently provides Ricochet commercial service in the San Francisco Bay Area, the Seattle and Washington D.C. metropolitan areas. In 1999, we completed development of our new high-speed service, which has demonstrated in Company tests to provide the same service as Ricochet, but at faster downstream speeds of up to 128 kbps. We are currently in the process of deploying our high-speed service in various metropolitan areas in the United States. While we believe we are substantially on track with the overall national network deployment described in our 1999 Annual Report on Form 10-K, the planned New York service area launch is facing delays relating to timeframes for zoning approvals as well as utility agreement negotiations. In addition, further negotiations for poletop access rights in three other planned service areas are proceeding slowly, and we are currently assessing the impact on these market area launches.

In February 2000, in order to focus our operations on deployment of our high-speed network, we entered into an agreement to license our UtiliNet technology to Schlumberger Resources

Management Services, Inc. The agreement grants Schlumberger the exclusive right to design, manufacture and sell UtiliNet products in return for license and royalty fees. We do not expect UtiliNet to be a significant source of revenues in the future.

We currently derive substantially all of our revenues from subscriptions paid to us by users of our current Ricochet service. After we launch our high-speed service, planned to occur during the late summer of 2000, we expect to derive substantially all of our revenues from subscription fees paid to us by channel partners, which will resell our service directly to their customers. After the launch of our high-speed service, we expect to curtail our business operations related to our current Ricochet service. As we deploy our high-speed network and launch our high-speed service, we expect our operating expenses to increase significantly from historical levels and to exceed revenues for the foreseeable future. We expect to generate substantial net losses to common stockholders for the foreseeable future.

RESULTS OF OPERATIONS

Revenues

Currently, we derive revenues from the sale of our services and products. We derive service revenues from Ricochet subscriber fees and Ricochet modem rentals, and we recognize these revenues ratably over the service period. We derive product revenues from the sale of UtiliNet products and Ricochet modems and recognize these revenues upon shipment.

Total revenues decreased to $3.2 million in the first quarter of 2000 from $4.2 million for the same period of 1999, primarily due to a decrease in product revenues. Product revenues declined to $0.9 million for the first quarter of 2000 from $1.8 million for the same period of last year as a result of our licensing of our UtiliNet technology to Schlumberger. Service revenues decreased to $2.3 million in the first quarter of 2000 from $2.4 million in the same period of 1999. This decrease was primarily the result of a decrease in UtiliNet service revenues of approximately $0.3 million, offset by a $0.2 million increase in Ricochet service revenues. Ricochet service revenues increased as a result of a 10% increase in subscribers as of March 31, 2000 compared with March 31, 1999. Total UtiliNet revenues decreased to $0.5 million in the first quarter of 2000 from $1.3 million in the same period of 1999 as a result of our licensing of our UtiliNet technology to Schlumberger. We expect that our UtiliNet revenues will continue to decline significantly in the future as a result of our focus on the launch of our high-speed service.

In the future, after we launch our high-speed service, we expect to curtail our business operations related to our current Ricochet service. We expect to derive substantially all of our future revenues from subscription fees paid to us by channel partners. We anticipate that our channel partners will pay us subscription fees based on flat rates for each user they enroll for our service. We will require each of our channel partners to charge its subscribers a flat rate for use of our service, although each channel partner will set the particular rate it charges its customers.

We currently have two channel partner relationships. In June 1999 and April 2000, MCI WorldCom and Juno Online Services, Inc., respectively, entered into agreements with us to sell our high-speed service to their customers. In our agreement with MCI Worldcom, MCI WorldCom has agreed to pay us a per-subscriber fee, subject to an agreed minimum revenue level of at least $388 million over the five years following the launch of our service, assuming that our deployment schedule is not delayed, that we place our network into service on schedule and that we meet quality-of-service and network performance standards. Subject to these limitations, we currently expect MCI WorldCom to pay us the following minimum amounts during the first five years after we launch our service:

First year............................	$ 5.6	million
Second year............................	40.6	million
Third year............................	83.6	million
Fourth year............................	117.4	million
Fifth year............................	141.0	million

Notwithstanding the foregoing, if MCI WorldCom's sales efforts result in fewer subscribers than MCI WorldCom has agreed contractually to provide, but the number of subscribers provided by MCI WorldCom and its authorized resellers nevertheless represent more than a specified percentage of our total users, MCI WorldCom will pay us only the greater of a per-subscriber rate for each of its subscribers or the subscription fees we receive from all of our other channel partners, which could be substantially less than the minimum revenues we currently expect from

MCI WorldCom. Accordingly, our ability to achieve the minimum revenue levels we expect from our agreement with MCI WorldCom may depend on our ability to enter into channel agreements with one or more large channel partners that can successfully sell subscriptions to our service so that subscribers provided by MCI WorldCom and its resellers represent less than the threshold percentage of our total users. In addition, if our deployment schedule is delayed or if we fail to meet deployment schedule deadlines or fail to comply with quality-of-service standards relating to data transmission performance, network availability, coverage and latency, ease of use and size of modems, all as specified in our agreement, MCI WorldCom may delay or reduce its minimum payments to us or, in the case of a deployment delay in excess of 12 months, may terminate the contract.

Cost of Revenues

Cost of service revenues consists primarily of network operations costs, real estate management costs and depreciation expense on network equipment. Network operations costs include the costs associated with the field managers, engineers and technicians who operate and maintain our high-speed network, as well as the costs associated with field offices we maintain, including our network operations centers. Network operations costs also include the telecommunications costs we incur to transmit data between our wired access points and network interface facilities and the Internet. Real estate management costs include the costs associated with the maintenance of lease agreements for our poletop radios, wired access points and network interface facilities and the ongoing rental payments for these sites. Real estate management costs also consist of the internal and external labor costs associated with maintaining right-of-way agreements in the markets where our network is currently deployed.

Cost of service revenues in the first quarter of 2000 was $13.8 million compared with $4.4 million in the same period of 1999. The significant increase was due to increases in staffing, property, telecommunications and support costs associated with the deployment of our new high-speed service in various markets. Staffing of personnel who manage network deployment increased by over 400% from March 31, 1999 to March 31, 2000. In the twelve months ending March 31, 2000, we opened up ten new operations field offices. We expect all components of our cost of service revenues to continue to increase significantly and rapidly as we expand the scope of our operations through the deployment of our high-speed network.

Cost of product revenues consists primarily of the inventory and manufacturing costs associated with Ricochet modem and UtiliNet product sales. Cost of product revenues decreased to $0.3 million in the first quarter of 2000 from $1.3 million in the first quarter of 1999. Ricochet cost of product revenues as a percentage of Ricochet product revenues declined to 37% in the first quarter of 2000 compared with 106% in the first quarter of 1999 as a result of increased shipments of refurbished modems for which the majority of costs have been charged to operations in previous periods. UtiliNet cost of product revenues as a percentage of UtiliNet product revenues declined to 32% in the first quarter of 2000 from 53% in the first quarter of 1999 as a result of higher selling prices and lower allocated costs in 2000. We expect Ricochet cost of product revenues to increase in 2000 as we sell modem inventory directly to

MCI WorldCom or other channel partners for resale to new subscribers to our high-speed service. In subsequent years, we anticipate that our channel partners may begin to purchase modems directly from our licensed third-party manufacturers.

Research and Development

Research and development costs include the costs incurred to develop our network technology and subscriber modems, as well as to obtain rights-of-way and related site agreements in markets where we plan to offer service. Research and development expenses increased to $9.6 million in the first quarter of 2000 from $8.2 million in the same period of 1999. The increase was primarily due to an increase in costs incurred to obtain right-of-way and site agreements in metropolitan areas where we currently plan to offer service. Right-of-way acquisition costs included in research and development increased to $4.4 million in the first quarter of 2000 from $3.1 million in the same period of 1999. We plan to continue to spend a substantial amount on staffing and support needed to obtain right-of-way agreements in markets under development. We plan to spend a substantial amount on the development of our networking products to reduce the cost of our system components, increase the speed and performance of our services and develop additional applications for our services. We also plan to continue to improve and upgrade our network and service to address the emerging demands for mobile data access. As a result, we expect that research and development costs will continue to increase significantly in absolute dollars for the foreseeable future.

Selling, General and Administrative

Selling, general and administrative expenses include our corporate overhead and the costs associated with our efforts to obtain and support our channel partners, promote the Ricochet brand and our high-speed service, and develop and implement our marketing strategy for our service and modems. Selling, general and administrative expenses increased to $8.0 million for the first quarter of 2000 from $4.1 million for the first quarter of 1999. Approximately three-quarters of the increase was due to increases in administrative staff and the labor, travel and support costs associated with supporting the widespread deployment of our high-speed service. Approximately one-quarter of the increase in 2000 was due to increased product marketing, advertising and public relations expenditures related to commercialization of the high-speed service. We expect selling, general and administrative costs to increase significantly from historical levels as we implement our planned advertising campaign related to the launch of the various phases of our high-speed service. We expect to spend more than $50 million on sales and marketing efforts in 2000 and substantially more in 2001. We also expect to continue to expand our corporate and administrative infrastructure to support our planned growth.

Interest and Other Income and Interest Expense

Interest and other income increased to $16.6 million in the first quarter of 2000 from $0.1 million in the same period of 1999 due primarily to a significantly higher average balance of cash, cash equivalents and investments on hand in 2000. As a result of the November 1999 sale of our preferred stock for net proceeds of $573.2 million and the February 2000 sale of common stock, 13% senior notes due 2010 and warrants to purchase common stock, we have over $1 billion on hand. We are using these cash resources to fund the deployment of our network, to fund operating losses and working capital requirements through the first two phases of our network deployment, and to fund interest on long-term debt and dividends on our preferred stock outstanding. Pending these uses, we have invested this cash in high-quality, short-term, interest-bearing securities. Accordingly, in the short-term, we expect to continue to generate a substantial amount of interest income, although this interest income will decline rapidly over time as we use this cash.

Interest expense increased to $7.5 million in the first quarter of 2000 from $1.2 million in the same period of 1999 as a result of the increase in our outstanding debt in 2000. Due to our senior notes and warrants offering in February 2000, we have approximately $300 million in outstanding debt. The senior notes require semi-annual cash interest payments commencing August 15, 2000. We have deposited approximately $73.1 million of the net proceeds from the sale of the senior notes in a pledge account to secure the first four interest payments on these securities. We therefore will continue to incur a substantial expense, a portion of which will be non-cash, for interest on these obligations. If we incur additional debt in the future to fund our expansion plans, our interest costs will increase.

Preferred Dividends

In November 1999, we issued 60,000,000 shares of preferred stock to Vulcan Ventures Incorporated and MCI WorldCom, Inc. for gross proceeds of $600 million. Each share of preferred stock bears a cumulative dividend at the rate of $.65 per year for the first three years after issuance, which we may pay in cash or in additional shares of preferred stock. We have historically paid and currently expect to continue to pay future dividends on the preferred stock in cash. Because the preferred stock sold to Vulcan Ventures is immediately convertible into common stock at the holder's option at a conversion price of $10.00 per share, which was below $11.06, the per share closing price of our common stock on the date immediately prior to our execution of the preferred stock purchase agreement, we recorded an additional dividend of $31.8 million in the fourth quarter of 1999 to reflect the beneficial conversion privilege associated with this series of preferred stock. The preferred stock issued to MCI WorldCom is also deemed to have been issued with a beneficial conversion privilege. However, that series of preferred stock does not begin to become convertible into common stock at the holder's option until May 2002. As a result, this discount will be amortized over the 48-month period, which began in November 1999, during which this series of preferred stock becomes convertible into common stock at the holder's

option. Accordingly, for both series of preferred stock in the aggregate, we will record preferred stock dividends in addition to our cash dividend on the preferred stock as follows:

2000............... $10.1 million 2001............... $10.1 million 2002............... $7.8 million
2003............... $2.6 million

Both series of preferred stock will accrete at approximately $2.7 million per year in total over the ten-year period from the beginning aggregate net book value of $573 million up to its aggregate face value of $600 million. This accretion will be charged against retained earnings (accumulated deficit).

In the first quarter of 2000, preferred dividends included $9.7 million of accrued dividends payable, $2.5 million of beneficial conversion privilege and $0.7 million of accretion related to the preferred stock.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations and capital expenditures primarily through the public and private sale of equity and debt securities. In 1996, we completed a private placement of 8% Convertible Subordinated Notes due 2003 with net proceeds of approximately $43.4 million. In January 1998, we completed a private placement of common stock with Vulcan Ventures with net proceeds of approximately $53.7 million. In November 1999, we completed a private placement of redeemable convertible preferred stock with Vulcan Ventures and MCI WorldCom with net proceeds of approximately $573 million. In February 2000, we completed a public offering of common stock with net proceeds of approximately $473 million and a public offering of 13% senior notes due 2010 and warrants to purchase common stock with available net proceeds of approximately $219 million, after establishing the required reserve to secure the first four interest payments on the notes. This large amount of indebtedness could adversely affect our business, for example, by requiring us to dedicate a substantial portion of our cash flow from operations to required payments on indebtedness or limiting our ability to acquire additional financing in the future. See "Risk Factors - We have a substantial amount of debt, which could adversely affect our business, financial condition and results of operations" in our 1999 Annual Report on Form **10-K.**

Since inception, we have devoted significant resources to the development, deployment and commercialization of wireless network products and services. As a result, as of March 31, 2000, we had incurred $370 million of cumulative net losses. Our operations have required substantial capital investments for the purchase of network equipment, modems and computer and office equipment.

Including network construction in progress, capital expenditures were $124.0 million during the first quarter of 2000. Network construction in progress included approximately $50.3 million in the first quarter of 2000 related to the purchase of component inventory located at our vendors. We expect that our vendors holding this inventory will use these components in the manufacture and assembly of network equipment for us in 2000. We expect that capital expenditures will significantly increase in the future as a result of our ongoing deployment and commercialization of the high-speed network.

Our principal uses of cash for the foreseeable future will be to fund the deployment of our high-speed network, to fund operating losses and to pay interest on our debt securities issued in February 2000, as well as dividends on our preferred stock. Based on our current projections, we believe that our cash, cash equivalents and unrestricted investments of approximately $1.08 billion as of March 31, 2000 will be sufficient to fund the first two phases of our network deployment. We believe that, in addition to the funds on hand at March 31, 2000, we will require additional cash resources of approximately $300 million to enable us to complete the three-phase deployment of our network, as well as for the other purposes described above. However, the funds we may actually require to complete any phase of the deployment may vary materially from our estimates. In addition, we could incur unanticipated costs or be required to alter our plans in order to respond to changes in competitive or other market conditions, which could require us to raise additional capital sooner than we expect. Further, although it is not our current intention to do so, we may decide to use a portion of our cash resources to acquire licensed spectrum or to license, acquire or invest in new products, technologies or businesses that we consider complementary to our business. We cannot assure you that the additional capital we will require to complete the third phase of our network deployment or for these other purposes will be available on commercially reasonable terms or at all. If we are unable to secure additional financing as necessary, we may need to delay or curtail our expansion plans. See in our 1999 Annual Report on Form 10-K, "Risk Factors We will require significant additional capital in the future to fund our continuing development, deployment and marketing of our high-speed network and service."

Our current and future operations will require substantial capital investments for the purchase of our network equipment, which consists primarily of network radios, wired access points and network interface facilities. Significant labor costs associated with deploying our network equipment include design of the network, site acquisition, zoning, construction and installation of equipment. In July 1999, we entered into an agreement with Sanmina Corporation to manufacture our poletop radios and network radios installed at wired access points. In October 1999, we entered into agreements with Wireless Facilities, Inc., General Dynamics Worldwide Telecommunications Systems and Whalen & Company to provide us with expertise and personnel to assist with the deployment of our network. At March 31, 2000, we had outstanding commitments to purchase approximately $325 million of network equipment and related labor from these suppliers.

We expect to incur significant expenditures to procure high-speed modems in the future. We have agreed to purchase 47,700 modems from our current modem supplier, Alps Electric (USA), Inc., in 2000, representing a commitment of approximately $20 million. In January 2000, we entered into a two-year agreement with NatSteel Electronics, Ltd. for the purchase of additional modems. In November 1999 and October 1999, we entered into agreements with Sierra Wireless and Novatel, respectively to develop and manufacture custom personal computer card modems. We have agreed with both Sierra Wireless and Novatel to purchase a minimum of 150,000 units in the first year of deliveries from each, representing a total commitment of approximately $68 million. We anticipate that deliveries from Alps will begin during the second quarter of 2000 and deliveries from Sierra Wireless and Novatel will begin in early 2001. In April 2000, we entered into an agreement with National Semiconductor Corporation to integrate the Ricochet modem technology onto a microchip set.

In December 1999, we called our $45 million aggregate principal amount of convertible notes due 2003 for redemption on January 10, 2000. As of December 31, 1999, $40.7 million of the notes had been converted into approximately 2.8 million shares of common stock. In the first quarter of 2000, the remaining $4.3 million of notes outstanding were converted to 0.3 million of shares of our common stock at a conversion price of $14.55 per share. As a result of the conversion, we issued an aggregate of 3,064,963 shares of our common stock to the former convertible note holders.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to financial market risk, including changes in interest rates and marketable securities prices, relates primarily to our investment portfolio, long-term debt and redeemable convertible preferred stock outstanding. Our cash equivalents and short-term investments subject to interest rate risk are primarily highly liquid corporate debt securities from high credit quality issuers. We do not have any significant investments in foreign currencies and we do not have any foreign exchange contracts or derivative instruments. We performed a sensitivity analysis to assess the impact of a change in interest rates. In the analysis, the fair value of our investment portfolio would not be significantly impacted by a 100-basis point change in interest rates, due primarily to the fixed rate, short-term nature of our portfolio. The fair value of our redeemable convertible preferred stock would not change materially in the event of a 100-basis point change in interest rates, due primarily to the fixed and relatively short-term nature of its 6.5% coupon rate. We estimate that the fair value of our long-term debt would decrease or increase by approximately $12 million in the event of a 100-basis point increase or decrease, respectively, in interest rates.

Recent filings: May 14, 1999 (Qtrly Rpt) | Aug 13, 1999 (Qtrly Rpt) | Nov 12, 1999 (Qtrly Rpt) | Mar 24, 2000 (Annual Rpt) | **May 12, 2000 (Qtrly Rpt)**
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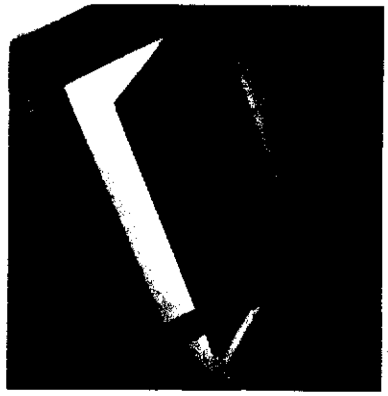
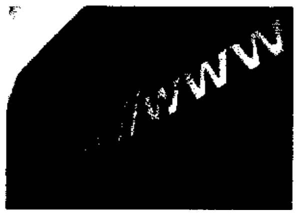
Ricochet Changes Everything

METRICOM, INC.
1999 ANNUAL REPORT





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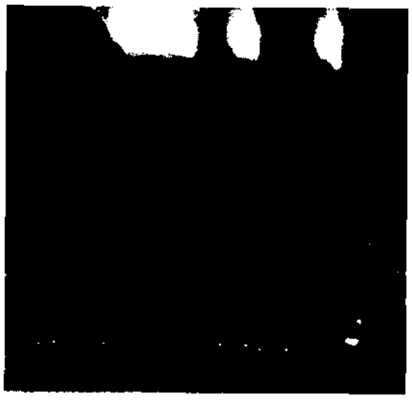
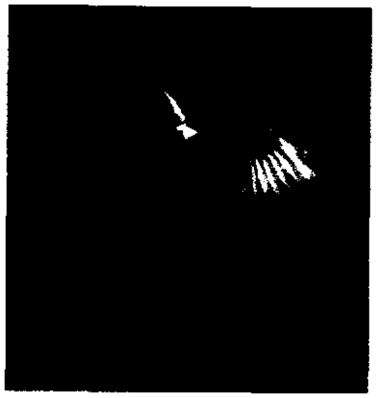
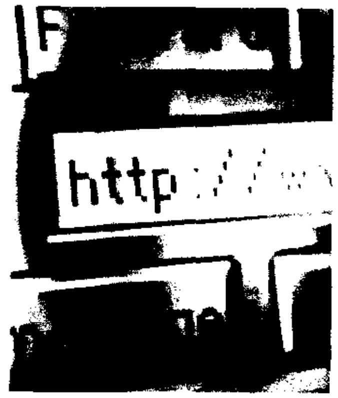
How?

About Metricom and Ricochet

True Freedom.

RICOCHET PROVIDES THE INTERNET ANYTIME.


We are on the brink of an entirely new era. With the emergence of the Internet, we are just now beginning to get a glimmer of how this fast-changing new world will take shape. What we do know is that online information — in every size, shape and form: text, audio, and video — will be integrated into the very fabric of our lives. Soon, we'll be online all the time — connecting through a vast and just now emerging range of devices. Web pads. Smart TVs. Informed refrigerators. Devices that allow you to monitor your children, communicate with your elderly parents, manage your stock portfolio — all the time. New information, new capabilities, new access devices and new ways of living, learning, and working are right around the corner.

Companies everywhere are scrambling — right now, today — to make this vision a reality. Very fast and affordable wireless access is critical to this vision. And we think that no company has a more compelling solution to power this wireless world than Metricom. Our Ricochet network gives communications providers, emerging device manufacturers and people everywhere wireless access that's always on, very fast, pervasive, and affordable.

Bottomline, Ricochet is changing everything and in so doing is helping power a completely connected world of people, information and ideas.

Fueling The Future.

LETTER TO THE SHAREHOLDERS

Changing Everything. 1999 was a turnaround year for Metricom. We secured funding to bring Ricochet 128 kbps to market and laid the groundwork for a national rollout. In a year full of industry hype, with everyone from device manufacturers to local phone companies extolling the virtue of taking the Internet with you, we made concrete progress toward truly delivering on the promise.

We began the year by taking Ricochet 128 kbps from the lab to field-testing, and put the system through its paces with a successful beta program involving over 250 outside users in a 42 square mile footprint. Ricochet's technology was proven while we found the right initial partners to bring the service to market. In the summer, we gained the backing of a leading telecommunications provider, MCI WorldCom, and additional endorsement from Vulcan Ventures, the principal investment vehicle of Microsoft co-founder Paul Allen. As we shifted our business to a wholesale model, MCI WorldCom also signed on as our first reseller.

The second half of the year was spent building the teams to move Ricochet out of three markets into more than 40 major metropolitan areas. Sanmina signed on to deliver mass quantities of microcell radios. General Dynamics, Whalen/Tetra Tech, and WFI came on board as prime contractors, and we enlisted architecture and engineering firms, bulk site providers, antenna manufacturers, and other suppliers to a point where approximately 5,000 people are working toward Ricochet's nationwide availability. During this time, radio frequency engineering for network footprints in the first 21 markets was accomplished, allowing us to begin Wired Access Point site acquisition.

Right-of-way progress continued throughout the year, as more and more communities grew excited to see Ricochet come to their area. By year's end, we had increased the number of municipal approvals to encompass areas covering about 50 million in population.

As expected with the investment in Ricochet development and buildout, we experienced a net loss of $104.5 million in 1999. In the fourth quarter, we completed the equity funding from MCI WorldCom and Vulcan Ventures, Inc. totaling $600 million. At the beginning of 2000, we conducted a successful public equity and concurrent debt offering with gross proceeds of over $800 million.

With funding secured, technology proven, right-of-way progressing, and deployment underway, we are now preparing to aggressively launch the Ricochet 128 kbps service.

As a prelude to the launch, we started year 2000 by introducing a new logo and brand spirit for Ricochet. Our new logo embodies the Ricochet passion brand: One foot firmly grounded in the action and activity of today's business world. One foot striding forward free from the constraints of the office. As we continue technical leadership, our marketing will emphasize the benefits of Ricochet as viewed from the footsteps of our passionate users.

While we face challenges in the year ahead, launching a fundamentally different service in the market, we remain focused on execution. We believe this focus will pay off as excitement builds and people are introduced to the real freedom of choosing how, when, and where to work. Of course, this is not where our vision stops. Changing everything also means fueling the new Internet. Just about every appliance that comes on the market and seeks to put the Internet in your pocket can benefit from being powered by high-speed, always on, flat-rate mobile access. That's Ricochet. When it powers mobile access, Ricochet changes the face of the Internet, fulfilling the vision of the Internet becoming a ubiquitous information tool.

Indeed, Ricochet changes everything. Our vision for the future is solid as we work diligently to bring Ricochet to market. The time is ripe for redefining freedom and taking a position that rightfully belongs to Ricochet. We are getting ready for launch and introducing people to true freedom — taking it ALL with them and escaping the shackles of the office.

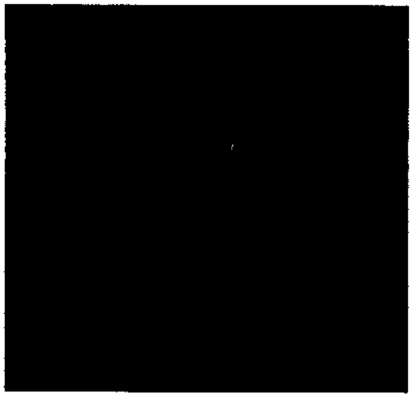
Timothy A. Dreisbach

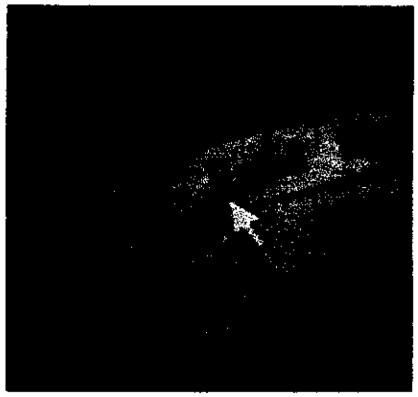
Sincerely,

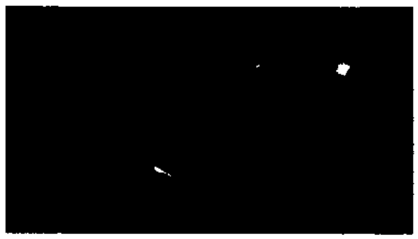
Timothy A. Dreisbach, *Chairman and Chief Executive Officer*

Fast, Wireless, Mobile.

MEET TRUE FREEDOM—RICOCHET.





Ricochet will fundamentally change the industry's way of offering access to the market. By providing a high-speed, secure, reliable, and cost-effective network, we make true mobile access a reality.

For communication service companies, business ISPs, and application providers, Ricochet translates into an instant, proven ability to offer mobile information access services, generate additional revenue, reduce churn, and strengthen brand loyalty without building a whole new expensive network infrastructure. For mobile professionals and individuals, Ricochet delivers on the promise of true mobility: It acts, feels, and works like a high-speed wired connection but provides the freedom to enable users to work when and where they want — outside the confines of an office or other single location anywhere in our service areas.

With Ricochet, users can access information anytime. At a client's office, at the airport, in the back of a cab, in their backyard, or in a coffee shop — without having to search for phone lines or outlets. They can wirelessly replicate their in-office experience from many locations. They can view and download full Web content. Send and receive email with attachments. Link to corporate Intranets through Virtual Private Networks (VPNs) and use the applications, information, and setup they're accustomed to without the need to be at the office.

Now imagine being able to do all of this from your choice of device — laptop, PDA, next-generation Internet appliance — and from products yet to be envisioned or created. This is the Ricochet vision.

A True Mobile Solution. Wireless data is a confusing market, with many unfulfilled promises of freedom. While there are numerous solutions currently available that tout their ability to offer true mobile freedom, these options all suffer from capacity, speed, and cost constraints.

Ricochet is designed for scalable capacity and will deliver data at an unprecedented 128 kbps — significantly faster than any other mobile wireless data access service available today. Ricochet is the industry's first mobile wireless information access solution to duplicate high-speed wired access. With a Ricochet wireless modem connected to your laptop, your desktop literally goes where you go — providing users with many of the same capabilities associated with working on a computer at the office. And it means users can have the full Web experience they want including graphics, videos, unclipped links to all other sites, etc.

Further, Ricochet is designed to complement and extend the access options that service providers and others market to their subscribers. And in addition to meeting the needs of mobile professionals, it will also address the high bandwidth data access requirements of residential users who don't have viable ISDN, cable, and DSL landline access.

Being the only 128 kbps network in the process of actual nationwide deployment, Ricochet gives us a substantial lead on our competitors, according to noted industry analysts. During fiscal 1999, we successfully completed beta testing of our high-speed network with 250 outside users in a test network comprising 42 square miles. The results were very impressive. With these results and funding under our belt, 1999 was also a year of gaining resources to construct the network, with about 5,000 people joining the team to help us deliver Ricochet. These include internal teams working with prime contractors, subcontractors, installation teams, parts suppliers, architecture and engineering firms, tower companies, and many others.

Wireless Access: The Next Net Craze

Higher speed access translates into higher data consumption. As the market is offered the option of having high-speed anytime, users will demand the same level of access to information they get with a landline connection. In fact, an ability to access the Internet and the corporate Intranet has become a requirement for all types of mobile users. We believe this growing demand by organizations and individuals is driven by four key trends: growth in laptop users and smart handheld devices; explosive growth of Internet users; increased importance of network access; and growth in the number of mobile workers.

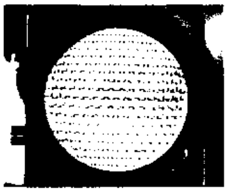
With Web access driving wireless data applications and mobile professionals swelling in ranks, true mobile information access will arguably become as important to businesses and individuals everywhere as mobile voice access is becoming today.

Metricom is ready for this growth. As with everything in Web time, those players with the strongest brand and the most comprehensive services stand to gain a disproportionate share of the market. Our Ricochet service provides a viable mobile information access solution tough enough and reliable enough to meet the rigors of this new wireless world. In fact, it's a world we are helping to create.

Always on. Anytime.

STAYING CONNECTED WITH RICOCHET.
OUR COMPETITIVE ADVANTAGE.




It's fast. Always on. Secure. Reliable. And liberating. It will change the way people think about mobile access forever. The Ricochet network is the culmination of extensive research and development, resulting in our efficient, reliable, and low-cost mobile data network. It provides users with the industry's fastest mobile data speeds, "always on, always there" wireless connections to the Internet and corporate LANs, flat-rate pricing, and no metered roaming charges. And because Ricochet complements other wireless data offerings, it plays a crucial role in enabling communications carriers to offer a complete range of wireless data services.

Our Ricochet network consists of self-contained, shoebox-sized radio transceivers, called microcells, which are typically mounted to streetlights or utility poles. These microcells, or poletops, route incoming data packets to the optimal Wired Access Point (WAP). The WAPs convert data into a format for transmission on a local wired IP network. All WAPs in a service area are connected to a regional Network Interface Facility (NIF). NIFs then connect Ricochet to our Network Operations Center (NOC) as well as gateways out to partner networks and the Internet.

This innovative technology offering provides numerous competitive advantages:

High Speed Access. With Ricochet, users get higher speed access to data than any other wide area mobile wireless technology commercially available today. With our new high-speed Ricochet technology, users work remotely at mobile downstream information access speeds approximately two to four times faster than most remote wired connections and approximately seven to 14-times faster than most remote wireless connections commercially available today. Bottom line, it is blazingly fast.

Replicating the Desktop Experience. It offers a true mobile solution that replicates users' in-office experience remotely with corporate LAN access to the applications they need most to work freely outside their office — everything from email and databases to fax servers and Intranet-based information. For office workers, it will make telecommuting a reality. While others offer stripped-down data services to cell phones and pagers at data rates less than 20 kbps, we focus on desktop-like connectivity for applications anytime, anywhere in our coverage areas.

Making Internet Appliances Really Work. As new devices become available, like Web pads, Ricochet can make them truly deliver on the promise of taking the Internet with you. Full access to all things Web, just the way users expect it to be — access to all the sites they want to visit, performance that lets them use streaming audio/video and new applications that evolve to enhance their Internet experience.

Microcell Technology. Unlike analog and digital voice networks forced to carry data, the Ricochet network was designed from the ground up to transfer packets of digital data. The Ricochet architecture is based on a digital packet-switched network that uses spread-spectrum radio frequency transmission and standard IP. Because it was designed solely for packet data, Ricochet enjoys high throughput, extremely low error rate, instantaneous handoff, low-cost and reliability.

Security and Reliability. Our network's use of frequency-hopping, spread-spectrum technology, combined with optional encryption, makes unauthorized interception of data packets extremely difficult and provides greater security than is generally available from other wired and wireless data communications services. It also offers reliable connectivity virtually everytime without dropped connections or busy signals.

Scalable, Cost Effective Network. Our network can be easily expanded to increase coverage and capacity by quickly and inexpensively installing additional poletop or wired access point radios in areas of high use. In addition, our network relies primarily on the unlicensed radio frequency spectrum that we are able to use without paying any license fee or similar acquisition cost.

Ricochet is different. Because of our densely deployed microcellular meshed network and spread-spectrum frequency-hopping architecture, the Ricochet network offers very high-speed service and ample capacity. Unlike cellular networks, the Ricochet network will easily and cost-effectively scale to meet increased demands. In fact, the Ricochet network is engineered to provide 128 kbps service to millions of users.

With this technology offering, while we recognize we face a number of challenges, we believe we are positioned to capture a significant share of the explosive wireless data sector.

Bringing Ricochet to Market.

In 1999, we put in place a team comprised of internal experts and contractors in the field. This team is chartered with aggressive deployment of the Ricochet network.

BUILDING THE RICOCHET BRAND.

How do we make our powerful solution available to the greatest number of people in the shortest amount of time? We believe we can accomplish this in a number of ways: through rapid national deployment efforts, by capitalizing on the distribution strength of a select group of channel partners, by building equity in the Ricochet brand, by maintaining network performance and cost advantages.

Creating a National Network. We are constructing our new high-speed Ricochet network. As a first step to bringing Ricochet to a local market, we have already obtained approvals for the municipal rights-of-way in areas covering about 50 million in population. We have completed the radio frequency engineering plans in our initial markets and are currently out in the field, building WAP sites, installing Network Interface Facilities, putting up poletop radios, and ordering circuits.

Partnering with Leaders. To further speed the national roll-out of our network and to promote broad adoption of the Ricochet service, we are forming partnerships with some of the industry's leading telecommunications providers, ISPs, wireless carriers, hardware manufacturers, system integrators, and application service providers. The Ricochet service will be available through our channel partners, including organizations such as MCI WorldCom and others who have significant marketing and customer support experience to help generate strong demand for our service.

Our channel partners will market and sell subscriptions to our service on a co-branded basis, enabling us to build brand awareness about the Ricochet service. And through aggressive marketing and advertising programs that will accompany the commercial launch of Ricochet, and a new inspiring logo that captures the essence of our brand, we aim to redefine freedom. We want to break through the cynicism of unfulfilled promises in the market and set people free from the office. Our goal is to make Ricochet the brand that delivers on the true promise of mobile access and to capture a leadership position that rightfully belongs to Ricochet.

Critical to our success is our commitment to continue to offer the best performance and cost advantages found anywhere on the market. We didn't get to 128 kbps performance — years ahead of the competition — without having this kind of technology commitment.

We have a grand vision here at Metricom: to provide freedom of access to information — regardless of where it resides either on an Intranet, or the Internet, in an email message or a video clip. Ricochet does change everything.

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SELECTED CONSOLIDATED FINANCIAL DATA

(In thousands, except per share data)	1999	1998	1997	YEAR ENDED DECEMBER 31, 1996	1995
Statement of Operations Data:					
Revenues:					
Service revenues	**$ 10,088**	$ 8,419	$ 6,642	$ 2,158	$ 789
Product revenues	**8,437**	7,440	6,797	4,996	4,995
Total revenues	**18,525**	15,859	13,439	7,154	5,784
Costs and expenses:					
Cost of service revenues	**21,319**	28,310	27,866	14,334	8,192
Provision for network replacement	**—**	14,392	—	—	—
Cost of product revenues	**6,014**	5,050	4,558	2,528	3,134
Research and development	**35,681**	27,313	13,212	13,920	10,627
Selling, general and administrative	**20,737**	22,934	21,189	17,724	11,715
Provision for Overall Wireless	**—**	—	3,611	—	—
Total costs and expenses	**83,751**	97,999	70,436	48,506	33,668
Loss from operations	**(65,226)**	(82,140)	(56,997)	(41,352)	(27,884)
Interest expense	**(5,884)**	(3,939)	(4,151)	(1,310)	—
Interest income	**4,818**	1,915	1,820	3,317	4,363
Net loss	**$ (66,292)**	$ (84,164)	$(59,328)	$(39,345)	$(23,521)
Preferred stock dividends	**(38,234)**	—	—	—	—
Net loss attributable to common stockholders	**$(104,526)**	$ (84,164)	$(59,328)	$(39,345)	$(23,521)
Basic and diluted net loss attributable to common stockholders per share	**$ (5.13)**	$ (4.63)	$ (4.35)	$ (2.93)	$ (1.79)
Weighted average shares outstanding	**20,375**	18,195	13,641	13,431	13,140

(In thousands, except per share data)	1999	1998	1997	AS OF DECEMBER 31, 1996	1995
Balance Sheet Data:					
Cash and investments	**$ 499,341**	$ 19,141	$ 14,474	$ 65,221	$ 64,415
Working capital	**478,618**	9,396	6,980	57,738	46,771
Property and equipment	**48,515**	42,345	40,301	33,606	17,717
Total assets	**546,647**	34,466	51,103	101,799	86,076
Long-term debt	**385**	55,098	45,000	45,000	—
Stockholders' equity (deficit)	**(54,200)**	(42,259)	(13,817)	43,306	80,374

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW.

We currently derive substantially all of our revenues from subscriptions paid to us by users of our current Ricochet service, which we offer in a limited number of markets, and from the sale of customer-owned networks and related products to companies primarily engaged in utility businesses. Since 1998, we have concentrated our efforts primarily on completing the development and testing of the technology necessary to deliver our high-speed service, acquiring rights-of-way and other rights necessary for us to deploy our high-speed network, establishing manufacturing relationships for network components and wireless modems and supporting the subscribers to our current Ricochet service. After we launch our high-speed service, planned to occur during the late summer of 2000, we expect to derive substantially all of our revenues from subscription fees paid to us by channel partners, which will resell our service directly to their customers. In connection with the launch of our high-speed service, we expect to sell our existing subscriber accounts to one or more of our channel partners, and we will curtail our business operations related to our current Ricochet service. As we deploy our high-speed network and launch our high-speed service, we expect our operating expenses to increase significantly from historical levels and to exceed revenues for the foreseeable future. We expect to generate substantial net losses to common stockholders for the foreseeable future.

Historically, we have generated a significant portion of our revenues from sales of customer-owned networks and related products, known as UtiliNet, to utility companies. In February 2000, in order to focus our operations on deployment of our high-speed network, we entered into an agreement to license our UtiliNet technology to Schlumberger Resources Management Services, Inc. The agreement grants Schlumberger Resources the exclusive right to design, manufacture and sell UtiliNet products in return for license and royalty fees. We do not expect UtiliNet to be a significant source of revenues in the future.

RESULTS OF OPERATIONS.

The following table sets forth, for the periods indicated, certain operational data as a percentage of total revenues:

	YEAR ENDED DECEMBER 31, 1999	1998	1997
Revenues:			
Service revenues	**54%**	53%	49%
Product revenues	**46%**	47%	51%
Total revenues	**100%**	100%	100%
Costs and expenses:			
Cost of service revenues	**115%**	179%	207%
Provision for network replacement	—	91%	—
Cost of product revenues	**32%**	32%	34%
Research and development	**193%**	172%	98%
Selling, general and administrative	**112%**	145%	158%
Provision for Overall Wireless	—	—	27%
Total costs and expenses	**452%**	618%	524%
Loss from operations	**(352)%**	(518)%	(424)%
Interest expense	**(32)%**	(25)%	(31)%
Interest income, net	**26%**	12%	14%
Net loss	**(358)%**	(531)%	(441)%
Preferred dividends	**(206)%**	—	—
Net loss attributable to common stockholders	**(564)%**	(531)%	(441)%

Year ended December 31, 1999 compared with year ended December 31, 1998

Revenues. Currently, we derive revenues from the sale of our services and products. We derive service revenues from Ricochet subscriber fees, Ricochet modem rentals and UtiliNet customer support fees, and we recognize these revenues ratably over the service period. We derive product revenues from the sale of UtiliNet products and Ricochet modems, and we recognize these revenues upon shipment. Total revenues increased to $18.5 million in 1999 from $15.9 million in 1998, primarily due to an increase in service revenues. Service revenues increased to $10.1 million in 1999 from $8.4 million in 1998, reflecting an increase in Ricochet service revenues to $9.1 million in 1999 from $7.5 million in 1998. This increase was primarily attributable to higher aggregate subscriber fees resulting from an approximate 15% increase in the number of Ricochet subscribers in 1999. Product revenues increased to $8.4 million in 1999 from $7.4 million in 1998, principally as a result of increased shipments of UtiliNet products. This increase was offset in part by a decline in Ricochet product revenues to $3.0 million

As we commercially launch our high-speed service in each market, we will begin depreciating the network equipment and other capitalized costs associated with building our network infrastructure. Our capitalized costs represent costs incurred in designing the network, site acquisition, zoning, construction and installation of equipment. We will depreciate our capitalized network costs over a useful life of three to five years, depending on the particular asset being depreciated. We expect our capitalized costs to increase significantly in 2000 and 2001 as we complete the deployment of our network. Accordingly, we expect that depreciation expense will increase rapidly over the next several years.

Cost of Product Revenues. Cost of product revenues consists primarily of the inventory and manufacturing costs associated with modem and UtiliNet product sales. Cost of product revenues increased to $6.0 million in 1999 from $5.0 million in 1998. Ricochet cost of product revenues increased to $3.0 million in 1999 from $2.7 million in 1998. Ricochet cost of product revenues as a percentage of Ricochet product revenues increased to 102% in 1999 from 84% in 1998. The increase over 1998 was primarily due to an increase in product revenues derived from the sale of higher cost Ricochet SX modems at lower average selling prices. We expect Ricochet cost of product revenues to increase in 2000 as we sell modem inventory directly to MCI WorldCom or other channel partners for resale to new subscribers to our high-speed service. In subsequent years, we anticipate that our channel partners may begin to purchase modems directly from our licensed third-party manufacturers. UtiliNet cost of product revenues increased to $3.0 million in 1999 from $2.3 million in 1998 as a result of increased shipments of UtiliNet products. UtiliNet cost of product revenues as a percentage of product revenues decreased slightly to 54% in 1999 from 55% in 1998.

Research and Development. Research and development costs include the costs incurred to develop our network technology and subscriber modems, as well as to obtain rights-of-way and related site agreements in markets where we plan to offer service. Research and development expenses increased to $35.7 million in 1999 from $27.3 million in 1998. Substantially all of the increase in 1999 was due to an increase in costs incurred in 1999 to obtain right-of-way and site agreements in metropolitan areas where we currently plan to offer service. The remainder of the increase was due to costs incurred to deploy a high-speed Ricochet test network in the first half of 1999. At December 31, 1999, we had outstanding commitments of approximately $5.2 million to third parties performing services associated with acquiring rights-of-way and related interests in real estate in new markets, the substantial majority of which we expect to spend in 2000. We plan to continue to spend a substantial amount on the development of our networking products to reduce the cost of our system components, increase the speed and performance of our services, develop additional applications for our services and to continue to improve and upgrade our network and service to address the emerging demands for mobile data access. As a result, we expect that research and development costs will continue to increase significantly in absolute dollars for the foreseeable future.

Selling, General and Administrative. Selling, general and administrative expenses include our corporate overhead and the costs associated with our efforts to obtain and support our channel partners, promote the Ricochet brand and our high-speed service, and develop and implement our marketing strategy for our service and modems. Selling, general and administrative expenses decreased to $20.7 million in 1999 from $22.9 million in 1998 primarily due to charges of approximately $3.5 million in severance to employees terminated in the third and fourth quarters of 1998. Partially offsetting this decrease was an increase in marketing expenditures related to commercialization of our new high-speed network. We expect selling, general and administrative costs to increase significantly from historical levels as we implement our planned advertising campaign related to the launch of the various phases of our high-speed service. We expect to spend more than $50 million on sales and marketing efforts in 2000 and substantially more in 2001. We also expect to continue to expand our corporate and administrative infrastructure to support our planned growth.

Interest income. Interest income increased to $4.8 million in 1999 from $1.9 million in 1998 due to a significantly higher average balance of cash, cash equivalents and investments in the last two months of 1999. As a result of the November 1999 sale of our preferred stock for net proceeds of $573.2 million, and the February 2000 sale of common stock, 13% senior notes due 2010 and warrants to purchase common stock, we have substantial cash on hand. We expect to use these cash resources to fund the deployment of our network and to fund operating losses and working capital requirements through the first two phases of our network deployment. Pending these uses, we will invest this cash in high-quality, short-term, interest-bearing securities. Accordingly, we initially expect to generate a substantial amount of interest income, although this interest income will decline rapidly over time as we use this cash.

Interest expense. Interest expense increased to $5.9 million in 1999 from $3.9 million in 1998 due to the increase in debt outstanding from Vulcan through the first ten months of 1999, as well as the amortization of approximately $1 million in debt issuance costs as a result of the call for redemption of our 8% Convertible Subordinated Notes due 2003. As a result of our senior notes and warrants offering in February 2000, we have approximately $300 million in outstanding debt. The senior notes will require semi-annual cash

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

interest payments commencing August 15, 2000. We have deposited approximately $73.1 million of the net proceeds from the sale of the senior notes in a pledge account to secure the first four interest payments on these securities. We will record a substantial expense, a portion of which will be non-cash, for interest on these obligations. If we incur additional debt in the future to fund our expansion plans, our interest costs will increase.

Preferred Stock Dividends. In November 1999, we issued 60,000,000 shares of preferred stock to Vulcan Ventures and MCI WorldCom for gross proceeds of $600 million. Each share of preferred stock bears a cumulative dividend at the rate of $.65 per year for the first three years after issuance, which we may pay in cash or in additional shares of preferred stock. We currently expect to pay dividends on the preferred stock in cash. Because the preferred stock sold to Vulcan Ventures is immediately convertible into common stock at the holder's option at a conversion price of $10.00 per share, which was below $11.06, the per share closing price of our common stock on the date immediately prior to our execution of the preferred stock purchase agreement, we recorded an additional dividend of $31.8 million in the fourth quarter of 1999 to reflect the beneficial conversion privilege associated with this series of preferred stock. The preferred stock issued to MCI WorldCom is also deemed to have been issued with a beneficial conversion privilege. However, that series of preferred stock does not begin to become convertible into common stock at the holder's option until May 2002. As a result, we will amortize that discount, beginning in 1999, over the 48-month period during which this series of preferred stock becomes convertible into common stock at the holder's option. Accordingly, for both series of preferred stock in the aggregate, we will record preferred stock dividends in addition to our cash dividend on the preferred stock as follows:

1999	$ 33.2 million
2000	10.1 million
2001	10.1 million
2002	7.8 million
2003	2.6 million

Both series of preferred stock will accrete at approximately $2.7 million per year in total over the ten year period from the beginning aggregate net book value of $573 million up to its aggregate face value of $600 million. This accretion will be charged against retained earnings (accumulated deficit).

Year ended December 31, 1998 compared with year ended December 31, 1997

Revenues. Total revenues increased to $15.9 million in 1998 from $13.4 million in 1997 primarily due to increased shipments of Ricochet modems. Ricochet product revenues totaled $3.3 million in 1998 compared with $1.7 million in 1997. Product revenues in total increased to $7.4 million in 1998 from $6.8 million in 1997. UtiliNet product revenues decreased to $4.1 million in 1998 from $5.1 million in 1997 due to a decrease in shipments of UtiliNet products. We derived a significant portion of UtiliNet product revenue from Southern California Edison ("SCE"). Product revenues from SCE accounted for 10% and 17% of total product revenues in 1998 and 1997, respectively. Service revenues increased to $8.4 million in 1998 compared with $6.6 million in 1997. This increase was due primarily to an increase in Ricochet subscribers of approximately 36% in 1998. Ricochet service revenue increased to $7.5 million in 1998 from $6.6 million in 1997.

Cost of Revenues. Cost of service revenues increased to $28.3 million in 1998 from $27.8 million in 1997. This increase reflects an increase in costs incurred to add Ricochet infrastructure and increase performance in commercial service areas was partially offset by reductions in inventory costs associated with a decrease in modems rented to customers in 1998. Cost of service revenues is expected to increase significantly as a result of the continued operation of Ricochet networks and planned future deployment of our high-speed service. Cost of product revenues increased to $5.0 million in 1998 from $4.6 million in 1997. Ricochet cost of product revenues as a percentage of Ricochet product revenues decreased to 84% in 1998 from 130% in 1997 as a result of an increase in the sale of modems in 1998 for which an obsolescence provision was established in 1997. UtiliNet cost of product revenues as a percentage of UtiliNet product revenues increased to 55% in 1998 from 47% in 1997 as a result of higher inventory procurement costs.

Provision for Network Replacement. In the fourth quarter of 1998, we recorded a one-time charge of $14.4 million to write down the carrying value of the Ricochet network equipment that is currently in operation in three metropolitan areas. This charge was recorded as a result of our plans to replace this equipment with our high-speed network equipment in the near future.

Research and Development. Research and development expenses increased to $27.3 million in 1998 from $13.2 million in 1997. Approximately two-thirds of the increase in 1998 was due to development of our high-speed network technology and subscriber devices. The increase was also due in part to an increase in costs incurred in 1998 to obtain right-of-way and site agreements in metropolitan areas where we currently plan to offer service.

Selling, General and Administrative. Selling, general and administrative expenses increased to $22.9 million in 1998 from $21.2 million in 1997 primarily due to charges of approximately $3.5 million in severance to employees terminated in the third and fourth quarters of 1998. Partially offsetting this increase was a reduction of $2.3 million in costs associated with our reduced Ricochet sales and marketing efforts in 1998 compared with 1997.

Interest Income and Expense. Interest expense decreased to $3.9 million in 1998 from $4.2 million in 1997. Interest expense in 1997 included a one-time charge for the interest paid against short-term borrowings incurred to participate in the FCC auction in April 1997. Interest income increased to $1.9 million in 1998 from $1.8 million in 1997 primarily due to a slightly higher average balance of cash, cash equivalents and investments in 1998 as compared with 1997.

LIQUIDITY AND CAPITAL RESOURCES.

We have financed our operations and capital expenditures primarily through the public and private sale of equity and debt securities. In 1996, we completed a private placement of 8% Convertible Subordinated Notes due 2003 with net proceeds of approximately $43.4 million. In January 1998, we completed a private placement of common stock with Vulcan Ventures with net proceeds of approximately $53.7 million. In November 1999, we completed a private placement of redeemable convertible preferred stock with Vulcan Ventures and MCI WorldCom with net proceeds of approximately $573 million. In February 2000, we completed a public offering of common stock with net proceeds of approximately $473 million and a public offering of 13% senior notes due 2010 and warrants to purchase common stock with available net proceeds of approximately $219 million, after establishing the required reserve to secure the first four interest payments on the notes.

Since inception, we have devoted significant resources to the development, deployment and commercialization of wireless network products and services. As a result, as of December 31, 1999, we had incurred $338.0 million of cumulative net losses. Our operations have required substantial capital investments for the purchase of network equipment, modems and computer and office equipment. As of December 31, 1999, we had cash, cash equivalents and investments of approximately $499.3 million and working capital of approximately $478.6 million. Our accounts receivable increased to $2.4 million as of December 31, 1999 from $1.5 million at December 31, 1998 due to a higher Ricochet subscriber base and an increase in UtiliNet product shipments in the fourth quarter of 1999 over the fourth quarter of 1998. Inventories decreased to $0.6 million in 1999 from $3.0 million in 1998 due primarily to shipments of current generation Ricochet modems. Including network construction in progress, capital expenditures were $33.1 million, $5.0 million and $10.6 million in 1999, 1998 and 1997, respectively. We expect that accounts receivable, inventories and capital expenditures will significantly increase in the future as a result of our ongoing deployment and commercialization of the high-speed network.

Our principal uses of cash for the foreseeable future will be to fund the deployment of our high-speed network, to fund operating losses and to pay interest on our debt securities issued in February 2000, and dividends on our preferred stock. Based on our current projections, we believe that, in addition to the funds on hand at December 31, 1999, we will require additional cash resources of approximately $1 billion to enable us to complete the three-phase deployment of our network, as well as for the other purposes described above. Approximately $692 million of these required resources, after deducting underwriting discounts and commissions and estimated offering expenses, and after establishing the required interest reserve to secure the first four interest payments on the notes, were funded from the net proceeds of the February 2000 common stock, notes and warrants offerings. Accordingly, based on our current projections, we believe that our cash, cash equivalents and short-term investments of approximately $499.3 million as of December 31, 1999, together with the net proceeds from the common stock, notes and warrants offerings in February 2000, will be sufficient to fund the first two phases of our network deployment. We will need additional funds to complete the third phase of our network deployment, and the funds we may actually require to complete any phase of the deployment may vary materially from our estimates. In addition, we could incur unanticipated costs or be required to alter our plans in order to respond to changes in competitive or other market conditions, which could require us to raise additional capital sooner than we expect. Further, although it is not our current intention to do so, we may decide to use a portion of our cash resources to acquire licensed spectrum or to license, acquire or invest in new products, technologies or businesses that we consider complementary to our business. We cannot assure you that the additional capital we will require to complete the third phase of our network deployment or for these other purposes will be available

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

on commercially reasonable terms or at all. If we are unable to secure additional financing as necessary, we may need to delay or curtail our expansion plans. See "Risk Factors - We will require significant additional capital in the future to fund our continuing development, deployment and marketing of our high-speed network and service" and "- We have a substantial amount of debt, which could adversely affect our business, financial condition results of operations" contained in our Annual Report on form 10-K for 1999.

Our current and future operations will require substantial capital investments for the purchase of our network equipment, which consists primarily of network radios, wired access points and network interface facilities. Significant labor costs associated with deploying our network equipment include design of the network, site acquisition, zoning, construction and installation of equipment. In July 1999, we entered into an agreement with Sanmina Corporation to manufacture our poletop radios and network radios installed at wired access points. In October 1999, we entered into agreements with Wireless Facilities, Inc., General Dynamics Worldwide Telecommunications Systems and Whalen & Company to provide us with expertise and personnel to assist with the deployment of our network. At December 31, 1999, we had outstanding commitments to purchase approximately $219 million of network equipment and related labor from these suppliers.

Effective January 1, 1999, we changed our capitalization policy for network equipment. In the construction of the first generation Ricochet network, costs incurred for site acquisition and radio frequency engineering were expensed as incurred due to the network's early stage of development. We believe that our new high-speed network currently being deployed is no longer in the early stages of development. Because site acquisition and radio frequency engineering are integral steps in the design and construction of the high-speed network, these costs are now being capitalized as part of the total cost of the assets. We believe the changed policy is preferable. The effect of the change in accounting principle in 1999 was to reduce the net loss available to common stockholders by approximately $15.9 million or $0.78 per share in 1999. The effect was also to reduce net loss by $1.3 million, or $0.10 per share in 1997 and to increase net loss by $1.3 million, or $0.07 per share in 1998. There was no effect as of January 1, 1999.

We expect to incur significant expenditures to procure high-speed modems in the future. We have agreed to purchase 47,700 modems from our current modem supplier, Alps Electric (USA), Inc., in 2000, representing a commitment of approximately $20 million. We have recently entered into a two-year agreement with NatSteel Electronics, Ltd. for the purchase of additional modems. We have also recently entered into agreements with Sierra Wireless and Novatel to develop and manufacture custom personal computer card modems. We have agreed with both Sierra Wireless and Novatel to purchase a minimum of 150,000 units in the first year of deliveries from each, representing a total commitment of approximately $68 million. We anticipate that deliveries from Alps will begin during the second quarter of 2000 and deliveries from Sierra Wireless and Novatel will begin in early 2001.

In December 1999, we called our $45 million aggregate principal amount of convertible notes due 2003 for redemption on January 10, 2000. As of December 31, 1999, $40.7 million of the Notes had been converted into approximately 2.8 million shares of common stock. As of the redemption date, all of the note holders had converted their notes into shares of our common stock at a conversion price of $14.55 per share. As a result of the conversion, we issued an aggregate of 3,064,963 shares of our common stock to the former convertible note holders.

The preferred stock we issued to MCI WorldCom and Vulcan Ventures in November 1999 carries a 6.5% dividend payable annually for three years and no dividend thereafter. As a result, in December 1999, we paid to the preferred stockholders cash dividends totaling $3.3 million, representing the pro rata portion of the annual dividend accrued since the date of initial issuance of the shares. We expect to pay cash dividends of approximately $39.0 million in both 2000 and 2001 and $35.7 million in 2002 on our preferred stock.

As a result of our completion of our notes and warrants offering in February 2000, we will have outstanding $300 million aggregate principal amount of 13% senior notes due 2010, which will require semi-annual cash interest payments of $19.5 million, commencing August 15, 2000. We have deposited approximately $73.1 million of the net proceeds from the sale of the senior notes in a pledge account to fund an interest reserve to secure the payment of the first four semi-annual cash interest payments on these notes.

In June 1995, Metricom Investments, Inc., our subsidiary, and PepData, Inc., a subsidiary of Potomac Electric Power Company, formed Metricom DC, L.L.C. to own and operate a Ricochet network in the Washington D.C. metropolitan area. Metricom Investments contributed $1,000 and rights to use proprietary technology employed by our Ricochet networks in exchange for an 80% interest in Metricom DC. PepData committed to contributing up to $7.0 million in exchange for a 20% interest in Metricom DC and certain preferential rights to available cash distributions. As of December 31, 1998, PepData had contributed approximately $5.9 million to the joint venture, $5.2 million of which is reflected as a minority interest in the accompanying consolidated financial statements at December 31, 1998. In November 1999, we paid $5.0 million to PepData to acquire the minority interest of Metricom DC from PepData.

Year 2000 Compliance. Many installed computer systems and software products were programmed to accept only two digits in the date code field. As of January 1, 2000, it became necessary for these code fields to accept four digit entries to distinguish years beginning with "19" from those beginning with "20."

We have assessed all of our internal computer systems and software products, tested those systems and products and remedied any known problems. We have upgraded our business and financial systems to a version that our vendors have certified to be year 2000 compliant and also communicated with our key suppliers to assess whether or not the products, services, networks and technologies of these suppliers are year 2000 compliant. We have also completed an assessment of whether our networks that depend upon third parties for telecommunications services and power are year 2000 compliant. In the fourth quarter of 1999, we completed our year 2000 assessment, testing and remediation efforts.

Because we have not yet launched our high-speed service and because many systems, whether or not they are information-technology systems, may contain embedded technology, we cannot assure you that we have identified and remedied all potential year 2000 problems that could arise in connection with our high-speed service. We have a contingency plan for handling year 2000 problems that were not detected and corrected prior to their occurrence, and we are continuing to assess any exposure areas in order to determine what additional steps are advisable. We are prepared to use backup systems and have developed other alternative contingency plans for other critical functions where computer systems are essential. To date, we have not experienced any material year 2000 problems. However, if all of our potential year 2000 problems were not properly identified or if adequate assessment and remediation are not timely effected with respect to any year 2000 problems, our business could be impaired significantly. Moreover, any year 2000 compliance problem facing our customers or third parties who provide our networks with telecommunications services and power could also harm our business.

New Accounting Standards. In June 1998, FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, hedging activities, and exposure definition. The pronouncement is effective for fiscal years beginning after June 15, 2000. We believe the pronouncement will not have a material effect on our financial statements.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101), "Revenue Recognition in Financial Statements". SAB 101 provides guidance on applying generally accepted accounting principles to revenue recognition issues in financial statements. We will adopt SAB 101 as required in the first quarter of 2000. We have not yet evaluated the effect SAB101 will have on our consolidated results of operations and financial position.

Qualitative and Quantitative Disclosures about Market Risk. Our exposure to financial market risk, including changes in interest rates and marketable securities prices, relates primarily to our investment portfolio and redeemable convertible preferred stock outstanding at December 31, 1999. Our cash equivalents and short-term investments subject to interest rate risk are primarily highly liquid corporate debt securities from high credit quality issuers. We do not have any significant investments in foreign currencies and we do not have any foreign exchange contracts or derivative instruments. The fair value of our investment portfolio would not be significantly impacted by either a 100 basis point increase or decrease in interest rates due primarily to the fixed rate, short-term nature of our investment portfolio. In addition, the fair value of our redeemable convertible preferred stock would not change materially in the event of a 100 basis point increase or decrease in interest rates, due primarily to the fixed and relatively short-term nature of its three-year 6.5% coupon rate.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share and per share amounts)	December 31, 1999	1998
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 354,820**	$ 19,141
Short-term investments	**144,521**	—
Accounts receivable, net	**2,387**	1,450
Inventories	**586**	3,046
Prepaid expenses and other	**3,116**	1,522
Total current assets	**505,430**	25,159
Property and equipment, net	**12,233**	5,555
Network construction in progress	**22,034**	—
Other assets, net	**6,950**	3,752
Total assets	**$ 546,647**	$ 34,466
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 9,649**	$ 5,061
Accrued liabilities	**12,642**	10,662
Notes payable	**4,521**	40
Total current liabilities	**26,812**	15,763
Long-term debt	**385**	55,098
Other liabilities	**321**	680
Minority interest	**—**	5,184
Redeemable convertible preferred stock, $0.001 par value per share: authorized - 72,000,000 shares; issued and outstanding - 60,000,000 shares in 1999	**573,329**	—
Commitments (Note 5)		
Stockholders' equity (deficit):		
Preferred stock, $0.001 par value per share, 8,000,000 shares authorized; no shares issued or outstanding	**—**	—
Common stock, $0.001 par value per share: authorized – 150,000,000 shares; issued and outstanding – 24,344,697 shares in 1999 and 18,793,055 shares in 1998	**25**	19
Additional paid-in capital	**283,763**	191,184
Accumulated deficit	**(337,988)**	(233,462)
Total stockholders' equity (deficit)	**(54,200)**	(42,259)
Total liabilities and stockholders' equity (deficit)	**$ 546,647**	$ 34,466

The accompanying notes are an integral part of these consolidated statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)		YEAR ENDED DECEMBER 31,	
	1999	1998	1997
Revenues:			
Service revenues	$ 10,088	$ 8,419	$ 6,642
Product revenues	8,437	7,440	6,797
Total revenues	18,525	15,859	13,439
Costs and expenses:			
Cost of service revenues	21,319	28,310	27,866
Provision for network replacement	—	14,392	—
Cost of product revenues	6,014	5,050	4,558
Research and development	35,681	27,313	13,212
Selling, general and administrative	20,737	22,934	21,189
Provision for Overall Wireless	—	—	3,611
Total costs and expenses	83,751	97,999	70,436
Loss from operations	(65,226)	(82,140)	(56,997)
Interest expense	(5,884)	(3,939)	(4,151)
Interest income	4,818	1,915	1,820
Net loss	(66,292)	(84,164)	(59,328)
Preferred stock dividends	38,234	—	—
Net loss attributable to common stockholders	$ (104,526)	$ (84,164)	$ (59,328)
Basic and diluted net loss attributable to common stockholders per share	$ (5.13)	$ (4.63)	$ (4.35)
Weighted average shares outstanding	20,375	18,195	13,641
Pro forma amounts assuming the new capitalization policy			
for network equipment is applied retroactively –			
Net loss attributable to common stockholders	$ (104,526)	$ (85,456)	$ (58,036)
Basic and diluted net loss attributable to common stockholders per share	$ (5.13)	$ (4.70)	$ (4.25)
Weighted average shares outstanding	20,375	18,195	13,641

The accompanying notes are an integral part of these consolidated statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)

(Dollars in thousands)	COMMON STOCK SHARES	COMMON STOCK AMOUNTS	ADDITIONAL PAID-IN CAPITAL	UNREALIZED HOLDING GAIN/(LOSS) ON INVESTMENTS	ACCUMULATED DEFICIT	TOTAL
Balance, December 31, 1996	13,555,445	$ 14	$ 133,298	$ (36)	$ (89,970)	$ 43,306
Exercise of options to purchase common stock	98,386	—	674	—	—	674
Common stock issued to employees	165,445	—	1,494	—	—	1,494
Unrealized gain on investments	—	—	—	37	—	37
Net loss	—	—	—	—	(59,328)	(59,328)
Balance, December 31, 1997	13,819,276	$ 14	$ 135,466	$ 1	$ (149,298)	$ (13,817)
Exercise of options to purchase common stock	187,053	—	911	—	—	911
Common stock issued to employees	136,726	—	1,094	—	—	1,094
Private placement of common stock	4,650,000	5	53,713			53,718
Net loss	—	—	—	(1)	(84,164)	(84,165)
Balance, December 31, 1998	18,793,055	$ 19	$ 191,184	$ —	$ (233,462)	$ (42,259)
Exercise of options to purchase common stock	2,537,677	3	18,109	—	—	18,112
Common stock issued to employees	100,156	—	622	—	—	622
Common stock issued upon the exercise of warrants	118,197	—	—	—	—	—
Conversion of 8% Convertible Subordinated Notes due 2003 to common stock	2,795,612	3	40,693	—	—	40,696
Preferred dividends	—	—	33,155	—	(38,234)	(5,079)
Net loss	—	—	—	—	(66,292)	(66,292)
Balance, December 31, 1999	**24,344,697**	**$ 25**	**$ 283,763**	**$ —**	**$ (337,988)**	**$ (54,200)**

The accompanying notes are an integral part of these consolidated statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	1999	YEAR ENDED DECEMBER 31, 1998	1997
Cash flows from operating activities:			
Net loss	$ (66,292)	$ (84,164)	$ (59,328)
Adjustments to reconcile net loss to net cash used in operating activities -			
Depreciation and amortization	4,717	9,205	8,366
Loss on retirement of property and equipment	1,301	—	—
Provision for Overall Wireless	—	—	3,611
Gain on purchase of minority interest	(184)	—	—
Provision for network replacement	—	14,392	—
(Increase) decrease in accounts receivable, prepaid expenses and other current assets	(2,531)	430	(93)
Decrease in inventories	2,460	1,970	3,055
Increase (decrease) in accounts payable, accrued liabilities and other liabilities	4,710	6,667	(1,350)
Net cash used in operating activities	(55,819)	(51,500)	(45,739)
Cash flows from investing activities:			
Purchase of property and equipment	(11,085)	(4,994)	(10,584)
Network construction in progress	(22,034)	—	—
Increase in other assets	(4,249)	(226)	(3,580)
Purchase of short-term investments	(144,521)	—	(18,941)
Proceeds from the sale of short-term investments	—	4,390	64,263
Net cash provided by (used in) investing activities	(181,889)	(830)	31,158
Cash flows from financing activities:			
Proceeds from issuance of common stock	18,734	56,549	2,168
Proceeds from issuance of preferred stock, net of issuance costs	573,000	—	—
Proceeds from issuance of notes payable and long-term debt	49,835	10,138	5,000
Reduction of notes payable and long-term debt	(59,932)	(5,000)	—
Payment of preferred dividends	(3,250)	—	—
Financing costs	—	—	(826)
(Purchase of) contribution from minority interest	(5,000)	—	2,777
Net cash provided by financing activities	573,387	61,687	9,119
Net increase (decrease) in cash and cash equivalents	335,679	9,357	(5,462)
Cash and cash equivalents, beginning of year	19,141	9,784	15,246
Cash and cash equivalents, end of year	$ 354,820	$ 19,141	$ 9,784
Summary of non-cash transactions:			
Property and equipment acquired under capital lease	561	—	—
Common stock issued upon conversion of long-term debt	40,690	—	—
Preferred dividends	34,984	—	—
Transfer of property and equipment in exchange for R&D services	—	—	439
Cash paid during the year for:			
Interest	5,339	3,657	3,603

The accompanying notes are an integral part of these consolidated statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

❶ ORGANIZATION.

Metricom, Inc. (the "Company") designs, develops and markets low cost, high performance, easy to use, mobile wireless data access products and services. The Company's primary service, Ricochet, provides subscriber-based, wireless data communications for users of portable and desktop computers and hand-held computing devices. Ricochet service is currently available in the San Francisco Bay Area, in the Seattle and Washington, D.C. metropolitan areas, parts of Los Angeles and New York City, and in a number of airports across the United States. In 2000, the Company plans to launch its high-speed service in certain major metropolitan areas throughout the United States. The Company's UtiliNet products provide customer-owned wireless data communications for industrial control and monitoring primarily in the electric utility, waste water and natural gas industries. The Company's UtiliNet products are sold throughout the United States.

Since its inception, the Company has incurred significant operating losses. These losses resulted primarily from expenditures associated with the development, deployment and commercialization of the Company's wireless network products and services. The Company expects to incur significant operating losses and to generate negative cash flows from operating activities during the next few years while it continues to develop and deploy networks and build its customer base. The ability of the Company to achieve profitability will depend upon the successful and timely deployment and marketing of its new high-speed service in major metropolitan areas of the United States. The market for mobile wireless data access services is in the early stages of development. As a result, the Company cannot reliably project potential demand for its high-speed service, particularly whether there will be sufficient demand at the volume and prices needed for the Company to be profitable. In addition, the Company is subject to additional risks, including the risks of developing technology, competition from companies with substantially greater financial, technical, marketing and management resources than the Company and potential changes in the regulatory environment.

❷ SIGNIFICANT ACCOUNTING POLICIES.

Consolidation. The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries after elimination of significant intercompany accounts and transactions. Certain amounts have been restated from the previously reported balance to conform to the 1999 presentation.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Limited Number of Suppliers. In 1999, the Company purchased all of its modems from one supplier. During 1999, the Company entered into contracts with additional suppliers that will provide high-speed modems in the future. Additional changes in suppliers could cause a delay in manufacturing and a possible loss of sales, which would affect operating results adversely.

Cash and Cash Equivalents. For the purposes of the Statement of Cash Flows, all highly liquid monetary instruments with an original maturity of 90 days or less from the date of purchase are considered to be cash equivalents.

Inventories. Inventories are stated at the lower of cost (first-in, first-out) or market and include purchased parts, labor and manufacturing overhead. Inventories consisted of the following (in thousands):

	DECEMBER 31, 1999	1998
Raw materials and component parts	**$ 207**	$ 680
Work-in-process	**139**	3
Finished goods and consigned inventory	**240**	2,363
Total	**$ 586**	$ 3,046

Property and Equipment. Property and equipment are stated at cost and are depreciated using the straight-line method over the shorter of their estimated useful lives of three to five years or the lease term. In 1998, a charge of $14.4 million was recorded to write down the carrying value of Ricochet network equipment to fair value. Ricochet network equipment includes poletop radios and wired access points deployed, and raw materials, work-in-process and finished goods not yet deployed. This provision for network replacement was recorded as a result of the Company's plans to replace this equipment with its new high-speed equipment in the near future. The fair market value was determined based on the present value of estimated future cash flows. This charge is included in Accumulated Depreciation on the Consolidated Balance Sheet at December 31, 1998. As of December 31, 1999 and 1998, network equipment included approximately $900,000 and $1.3 million, respectively, of raw materials, work-in-process and finished goods related to network equipment that is manufactured by the Company for its Ricochet networks. Property and equipment consisted of the following (in thousands):

	DECEMBER 31, 1999	1998
Machinery and equipment	**$ 21,264**	$ 13,017
Network equipment	**22,256**	22,752
Ricochet modems	**1,007**	3,229
Furniture and fixtures	**2,453**	1,964
Leasehold improvements	**1,535**	1,383
	48,515	42,345
Less—Accumulated depreciation and amortization	**(36,282)**	(36,790)
Total	**$ 12,233**	$ 5,555

Accounting Change. Effective January 1, 1999, the Company changed its capitalization policy for network equipment. In the construction of the first generation Ricochet network, costs incurred for site acquisition and radio frequency engineering were expensed as incurred due to the network's early stage of development. The Company believes that its new high-speed network currently being deployed is no longer in the early stages of development. Because site acquisition and radio frequency engineering are integral steps in the design and construction of the high-speed network, these costs are now being capitalized as part of the total cost of the assets. Management believes the changed policy is preferable. The effect of the change in accounting principle in 1999 was to reduce the net loss available to common stockholders by approximately $15.9 million or $0.78 per share in 1999. The effect was also to reduce net loss by $1.3 million, or $0.10 per share in 1997 and to increase net loss by $1.3 million, or $0.07 per share in 1998. There was no effect as of January 1, 1999.

Network Construction in Progress. In 1999, the Company began deployment of its high-speed Ricochet networks in a number of markets in the United States. As of December 31, 1999, the Company had incurred and capitalized $22.0 million of deployment costs. Deployment costs include site acquisition, radio frequency engineering, zoning and construction management. As commercial service is launched in each market, the capitalized costs associated with the network equipment assets in each market will be transferred to Property and Equipment and depreciated over an estimated useful life of four years.

Accrued Liabilities. Accrued liabilities consisted of the following (in thousands):

	DECEMBER 31, 1999	1998
Interest	**$ —**	$ 1,075
Employee stock purchase plan	**658**	210
Deferred revenue	**3,122**	2,691
Payroll and related	**6,147**	5,477
Royalties	**236**	185
State and local taxes	**235**	275
Warranty	**256**	256
Preferred dividends	**1,500**	—
Other	**488**	493
Total	**$ 12,642**	$ 10,662

Debt Issuance Costs. Debt issuance costs of approximately $1.0 million at December 31, 1998 are included in other assets in the accompanying consolidated balance sheet. In connection with the conversion of debt to equity (Note 7), the Company amortized all remaining debt issuance costs in 1999. The amortization expense is reflected as a component of interest expense.

Licensed Spectrum. In fiscal 1997, the Company paid $1.45 million for licensed spectrum in the Wireless Communication Services auction. This spectrum will be used by the Company's new high-speed Ricochet network. This amount is included in other assets in the accompanying balance sheet and will be amortized over its life commencing with commercial use.

Revenue Recognition. Product revenues are recognized upon shipment. Service revenues consist of subscriber fees and equipment rentals from Ricochet and fees for UtiliNet customer support and are recognized ratably over the service period. Cash received from customers in advance of providing services is deferred and is included in accrued liabilities in the accompanying consolidated balance sheets.

Research and Development Expenditures. Research and development expenditures are charged to operations as incurred.

New Accounting Standards. In June 1998, FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, hedging activities and exposure definition. The pronouncement is effective for fiscal years beginning after June 15, 2000. The Company believes the pronouncement will not have a material effect on its financial statements.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101), "Revenue Recognition in Financial Statements". SAB 101 provides guidance on applying generally accepted accounting principles to revenue recognition issues in financial statements. The Company will adopt SAB 101 as required in the first quarter of 2000. Management has not yet evaluated the effect SAB101 will have on the Company's consolidated results of operations and financial position.

3 INVESTMENTS.

The Company's investments in securities are considered available-for-sale and are recorded at their fair values as determined by quoted market prices with any unrealized holding gains or losses classified as a separate component of stockholders' equity. Upon sale of the investments, any previously unrealized gains or losses are recognized in results of operations. As of December 31, 1999, the aggregate fair value equaled the cost basis of the Company's investments. In 1998 and 1997, the difference between aggregate fair value and cost basis was not material. The value of the Company's investments by major security type is as follows (in thousands):

	DECEMBER 31, 1999	1998
Security Type		
United States Treasury and Agencies	**$ 76,140**	$ —
Corporate debt and money market	**423,201**	15,408
Total	**$ 499,341**	$ 15,408

As of December 31, 1999, investments in obligations of the United States Treasury and Agencies and corporate debt and money market securities had maturities of 0 to 18 months. Approximately $354.8 million and $16.4 million of the total investments as of December 31, 1999 and 1998, respectively, are included in cash and cash equivalents.

In June 1995, Metricom Investments, Inc. ("Metricom Investments"), a subsidiary of the Company, and PepData, Inc. ("PepData"), a subsidiary of Potomac Electric Power Company, formed Metricom DC, L.L.C. ("Metricom DC") to own and operate a Ricochet network in the Washington D.C. metropolitan area. Metricom Investments contributed $1,000 and rights to use proprietary technology employed by the Company's Ricochet networks in exchange for an 80% interest in Metricom DC. PepData committed to contributing up to $7.0 million in exchange for a 20% interest in Metricom DC and certain preferential rights to available cash distributions. As of September 30, 1999, PepData had contributed approximately $6.0 million to the joint venture, $5.2 million of which is reflected as a minority interest in the accompanying consolidated financial statements. In November 1999, the Company paid $5.0 million to PepData to acquire the minority interest of Metricom DC from PepData.

In February 1996, the Company purchased an option to acquire Overall Wireless Communications Corporation ("Overall Wireless"), a company that holds a nationwide, wireless communications license in the 220 to 222 MHz frequency band. The Company paid $700,000 for the option and agreed to loan Overall Wireless up to $2.0 million for the construction of a system utilizing the license, of which approximately $1.8 million had been loaned as of December 31, 1997. In January 1997, the Company paid $500,000 to extend the option from January 1997 to July 1997. The option was subsequently extended to December 31, 2000 for no additional cash consideration. In June 1997, the Company recorded a charge of $3.6 million to fully reserve its investment in Overall Wireless due to uncertainties regarding its realization. In January 1998, Overall Wireless canceled the option and the Company paid a termination fee of $1.8 million through cancellation of the indebtedness of Overall Wireless.

4 SIGNIFICANT CUSTOMER.

For the years ended December 31, 1999, 1998 and 1997, combined product and service revenues from Southern California Edison accounted for 8%, 7% and 12%, respectively, of total revenues. No other customers accounted for more than 10% of revenues.

5 COMMITMENTS.

The Company has entered into contracts with various suppliers in order to deploy its new high-speed network. At December 31, 1999, the Company had commitments to purchase network equipment and network design, construction and related services totaling approximately $219 million, the substantial majority of which the Company expects to spend in 2000. The Company also has entered into contracts with high-speed modem suppliers. At December 31, 1999, the Company had commitments to purchase modems totaling approximately $90 million, and expects to take delivery of the modems under these agreements in 2000 and 2001.

The Company leases various facilities and equipment under operating lease agreements. Rent expense under these agreements for the years ended December 31, 1999, 1998 and 1997, was approximately $1.6 million, $1.9 million and $1.8 million, respectively. The lease agreement for the Company's current primary facility provides for escalating rent payments over a 12-year term ending February 2004; however, rent expense is recognized ratably over the lease term. As of December 31, 1999 and 1998, the Company had accrued approximately $321,000 and $388,000, respectively, of deferred rental payments under this agreement, which are included in other liabilities in the accompanying consolidated balance sheets. In November 1999, the Company entered into a 10-year agreement to lease approximately 145,000 square feet of office space beginning in June 2000. Approximate future minimum rental payments under operating lease agreements are as follows (in thousands):

YEARS ENDING DECEMBER 31,	
2000	$ 4,079
2001	5,379
2002	5,013
2003	5,086
2004	4,569
Thereafter	25,304
Total	$49,430

The Company has also entered into various agreements with electric utilities, municipalities and building owners for the use of utility poles and building rooftops on which network equipment is installed. Payment under agreements for use of utility poles is generally contingent upon the number of network radios installed during the year. Rent expense under these agreements for the years ended December 31, 1999, 1998 and 1997 was approximately $2.7 million, $1.1 million and $1.1 million, respectively. Future minimum rental payments under these agreements as of December 31, 1999 are approximately $2.7 million per year.

6 CAPITALIZED LEASES.

The Company has leased equipment under various capital lease agreements. As of December 31, 1999, the cost of the leased assets was $793,000 and the related accumulated depreciation was $118,000. The weighted average interest rate on the outstanding leases is 10.9%. The following is a schedule of future minimum payments under the equipment leases together with the present value of the net minimum lease payments at December 31, 1999:

YEARS ENDING DECEMBER 31,	
2000	$ 259
2001	169
2002	89
2003	89
2004	75
Thereafter	—
Total net minimum lease payments	681
Less amount representing interest	(79)
Present value of net minimum lease payments	602
Less current portion	217
Long-term portion	$ 385

7 LONG-TERM DEBT.

In August 1996, the Company issued $45 million principal amount of unsecured, 8% Convertible Subordinated Notes (the "Convertible Notes") due September 15, 2003, with interest payments due semi-annually on March 15 and September 15, commencing March 15, 1997. The Convertible Notes are convertible into shares of the Company's common stock at a conversion price of $14.55 per share, subject to adjustment in certain events. In December 1999, the Company called for redemption of the Convertible Notes on January 10, 2000. As of December 31, 1999, $40.7 million of the Convertible Notes had been converted into approximately 2.8 million shares of common stock. In January 2000, all remaining Convertible Notes were converted to common stock.

In October 1998 and June 1999, the Company entered into line of credit and loan agreements, respectively, with Vulcan Ventures Incorporated, a significant shareholder of the Company. A total of $60 million was drawn by the Company against these loans with interest at the prime rate due quarterly on the outstanding balances. All amounts outstanding under these agreements were paid in full in November 1999.

In February 2000, the Company, together with its wholly owned finance subsidiary, Metricom Finance, Inc., as co-issuers and co-obligors, issued $300 million aggregate principal amount of 13% Senior Notes due 2010. Metricom Finance has no independent assets or operations. The Company has fully and unconditionally guaranteed the obligations of Metricom Finance, Inc. under the notes. Interest on the notes will be payable on February 15 and August 15 of each year, beginning August 15, 2000. The notes will mature on February 15, 2010. The notes were offered together with warrants to purchase 1,425,000 shares of common stock of the Company at an initial exercise price of $87.00 per share. Each warrant enables the holder to purchase 4.75 shares of common stock and is exercisable on or after August 15, 2000. Each warrant was sold for $212.06 per each associated $1,000 principal amount of notes, and each note was sold for $787.94. The warrants will expire on February 15, 2010. Net proceeds to the Company from the notes and warrants offering was approximately $291.8 million, $73.1 million of which was deposited in a restricted pledge account to secure the payment of the first four scheduled interest payments on the notes.

8 STOCKHOLDERS' EQUITY.

In January 1998 the Company completed a private placement for the sale of 4,650,000 shares of common stock to Vulcan at $12.00 per share for net proceeds of approximately $53.7 million.

In February 2000, the Company issued 5,750,000 shares of common stock at $87.00 per share in a public offering. Net proceeds to the Company were approximately $473.2 million, after deducting underwriting discounts, commissions and estimated offering expenses.

Redeemable Convertible Preferred Stock. In November 1999, the Company issued and sold to MCI WorldCom, Inc. 30 million shares of newly-designated Series A1 preferred stock at a price of $10 per share, and the Company issued and sold to Vulcan Ventures 30 million shares of newly-designated Series A2 preferred stock at a price of $10 per share, for gross aggregate proceeds to the Company of $600 million. Both series of preferred stock bear cumulative dividends at the rate of 6.5% per annum for three years, payable in cash or additional shares of preferred stock. In addition, each series has the right to elect one director to the Company's Board of Directors, although voting rights otherwise will be generally limited to specified matters. The preferred stock is subject to mandatory redemption by the Company at the original issuance price in 10 years following initial issuance and to redemption at the option of the holder upon the occurrence of specified changes in control or major acquisitions. Both series of preferred stock will accrete at approximately $2.7 million per year over the ten year period from the beginning aggregate net book value of $573 million up to its redemption value of $600 million. This accretion will be charged against retained earnings (accumulated deficit).

Because the Series A2 preferred stock is immediately convertible into common stock at the holder's option at a conversion price of $10.00 per share, which was below $11.06, the per share closing price of the Company's common stock on the date immediately prior to execution of the preferred stock purchase agreement, the Company recorded an additional dividend of $31.8 million in the fourth quarter of 1999 to reflect the beneficial conversion privilege associated with this series of preferred stock. The Series A1 preferred stock was also issued with a beneficial conversion privilege. However, Series A1 preferred stock does not begin to become convertible into common stock at the holder's option until May 2002. As a result, that discount will be amortized, beginning in 1999, over the 48-month period during which this series of preferred stock becomes convertible into common stock at the holder's option. Accordingly, for both series of preferred stock in the aggregate, preferred stock dividends in addition to cash dividends, as discussed above, will be recorded on the preferred stock as follows:

1999	$ 33.2 million
2000	10.1 million
2001	10.1 million
2002	7.8 million
2003	2.6 million